

WORTH COUNTY
Northwood, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2004

WORTH COUNTY, IOWA
Northwood, Iowa

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WORTH COUNTY
Northwood, Iowa

Board of Supervisors

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
Dennis May	January 2007	First District
Darrell Bang.....	January 2005	Second District
Ken Abrams	January 2007	Third District

OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
Kay Clark	January 2005	County Auditor
Helen Senne	January 2007	County Tresurer
Elizabeth Kenison.....	January 2007	County Recorder
David Gentz	January 2005	County Sheriff
Jeff Greve	January 2007	County Attorney
Daniel Reeder.....	January 2007	County Assessor

Independent Auditors' Report

To the Officials of Worth County
Northwood, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Worth County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Worth County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Worth County at June 30, 2004, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13 to the financial statements, during the year ended June 30, 2004, Worth County adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Independent Auditors' Report (Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2005 on our consideration of Worth County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 – 9 and 35 – 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Worth County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (none of which are presented herein) and expressed qualified opinions on those financial statements for lack of fixed asset records, materials and supplies inventory records pertaining to Special Revenue Funds. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

April 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Worth County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 8%, or approximately \$473,789, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$41,829, operating grants, capital grants and contributions decreased approximately \$222,352.
- Program expenses were 14%, or approximately \$948,473, more in fiscal 2004 than in fiscal 2003. Roads and transportation expense decreased approximately \$50,692.
- The County's net assets decreased 21%, or approximately \$1,130,393 from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Worth County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Worth County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

- 1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 3) the Debt Service Fund, and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) Proprietary funds account for the County's Internal Service Fund, Employee Group Health Insurance Account. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for E911 services, emergency management services and the County Assessor, to name a few.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Worth County's combined net assets decreased from a year ago, from \$5.26 million to \$4.13 million. The analysis that follows focuses on changes in the net assets for governmental activities.

Net Assets of Governmental Activities

(Expressed in Thousands)

	2004
Current and Other Assets	\$7,821
Capital Assets	2,824
Total Assets	10,645
Long-Term Debt Outstanding	2,570
Other Liabilities	3,941
Total Liabilities	6,511
Net Assets:	
Invested in Capital Assets, Net of Related Debt	2,096
Restricted	1,755
Unrestricted	283
Total Net Assets	\$4,134

Net assets of the Worth County's governmental activities decreased by 21% (\$5.26 million compared to \$4.13 million). The largest portion of the County's net assets is the invested in capital assets (e.g. land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements was \$283,000. The reduction in unrestricted net assets was a result of increased expenditures for capital projects and daily expenses.

Changes in Net Assets of Governmental Activities

(Expressed in Thousands)

Revenues:	
Program Revenues:	
Changes for Service	\$812
Operating Grants, Contributions and Restricted Interest	2,300
Capital Grants, Contributions and Restricted Interest	347
General Revenues:	
Property Tax	2,343
Penalty and Interest on Property Tax	23
State Tax Credits	163
Local Option Sales Tax	195
Franchise Tax	9
Unrestricted Investment Earning	93
Other General Revenues	312
Total Revenues	6,597
Program Expenses:	
Public Safety and Legal Services	1,209
Physical Health and Social Services	881
Mental Health	824
County Environment and Education	1,622
Roads and Transportation	1,988
Governmental Services to Residents	231
Administration	617
Non-Program	296
Interest on Long-term Debt	60

Total Expenses	7,728
Increase (Decrease) in Net Assets	(1,131)
Net Assets Beginning of Year	5,264
Net Assets End of Year	\$4,133

The results of governmental activities for the year resulted in Worth County's net assets decreasing by approximately \$1.1 million. Revenues for governmental activities increased by approximately \$473,789 over the prior year, with property tax revenue up from the prior year by approximately \$41,829 or 2% percent.

The County increased property tax rates for 2004 by an average of 4%. This increase raised the County's property tax revenue by approximately \$41,829 in 2004. Property tax revenue is budgeted to increase by an additional \$700,910 next year.

The cost of all governmental activities this year was \$7,728,947 compared to \$6,780,474 last year. However, as shown in the Statement of Activities on page 11, the amount taxpayers ultimately financed for these activities was only \$3.1 million because some of the cost was paid by those directly benefited from the programs \$(811,541) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2.6 million). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2004 from approximately \$3.1 million to \$3.4 million. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$2.3 million in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUNDS ANALYSIS

As Worth County completed the year, its governmental funds reported a combined fund balance of \$3.875 million, a decrease of more than \$557,196 below last year's total of \$4.405 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures remained consistent when compared to the prior year. The ending fund balance showed a decline of \$206,376 from the prior year to \$845,446.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$824,134, an increase of 1% from the prior year. The Mental Health Fund balance at year end decreased by approximately \$174,702 over the prior year.
- Secondary Roads Fund expenditures increased by approximately \$895,120 over the prior year, due principally to a new bridge, paving the road to the ethanol plant, and flooding. The Secondary Roads Fund ending balance decreased approximately by \$36,947, or 5%.
- The Debt Service Fund ending balance increased by approximately \$37,132.
- During the year ended June 30, 2004 the County issued \$163,000 of general obligation bonds to help finance a elevator in the County courthouse. The proceeds from the bond issue were placed in a Capital Projects Fund set up to account for this major project. The Capital Projects Fund had a deficit balance of \$1,530 at the end of the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Worth County amended its budget three times. The first amendment was made in September 2003, and resulted in an increase in budgeted disbursements related to sanitary disposal, a special election, and construction of an elevator in the courthouse. The second amendment was made in February 2004. This amendment was made to provide for general long-term debt proceeds and expenditures, an Emergency Medical Services Grant, and road construction. The third amendment was made in May 2004. This amendment was made for an Emergency Medical Services Grant, sanitary disposal, and utilities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Worth County had approximately \$2.8 million invested in a broad range of capital assets, including public safety equipment, buildings, part facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$959,002 or 51% over last year. (This increase includes infrastructure not previously reported).

Capital Assets of Governmental Activities at Year End

	(Expressed in Thousands)
	2004
Buildings and Improvements	\$ 752
Equipment and Vehicles	2,185
Infrastructure	415
Construction in Process	717
Total	\$4,069
This year's major additions include (expressed in thousands)	
Roads and Bridges	\$ 417
Courthouse Improvement Project	164
Construction in Process - Resurfacing	476
Total	\$1,057

The County had depreciation expense of \$159,105 for the year ended June 30, 2004 and total accumulated depreciation of \$1.245 million at June 30, 2004.

The County's fiscal year 2004 capital budget included \$913,131 for capital projects, principally for the addition of an elevator in the County courthouse and for continued upgrading of secondary road and bridges. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2004 Worth County has approximately \$2.57 million in general obligation bonds and other debt outstanding compared to approximately \$1.09 million at June 30, 2003, as shown below.

Outstanding Debt at Year-End of Governmental Activities

	(Expressed in Thousands)	
	2004	2003
Loans	\$565	\$674
Urban Renewal Revenue Bond	1,386	0
General Obligation Notes	238	0
Capital Lease Purchase Agreements	0	41
Drainage Warrant and Improvement Certificates	189	221
Compensated Absences	192	154
Total	\$2,570	\$1,090

Debt increased as a result of issuing general obligation bonds for the courthouse elevator and the ethanol plant.

The County continues to carry a general obligation bond rating as Aa3 assigned by national rating agencies to the County's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5% of the assessed value of all taxable property within the County's corporate limits. Worth County's outstanding general obligation debt is significantly below its constitutional debt limit of \$17.7 million. Other obligations include accrued vacation pay and sick leave. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Worth County's elected and appointed official and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and the fees that will be charged for various County activities. One of those factors is the economy. The County's non-agricultural employment growth has mirrored its population loss during 1999-2004, averaging per year losses of 4.1%. Unemployment in the County now stands at 4.1% versus 3.9% a year ago. This compares with the State's unemployment rate of 3.4% and the national rate of 3.9%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2% for fiscal year 2004 compared with national rate of 3.4%. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$8,010,942, an increase of 10% over the final 2004 budget. The County has added no major programs or initiatives to the 2005 budget.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Worth County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Worth County Auditor's Office, 1000 Central Avenue, Northwood, Iowa.

WORTH COUNTY
Northwood, Iowa

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$4,258,726
Receivables	
Property Tax	
Delinquent	17,967
Succeeding Year	3,014,129
Interest & Penalty On Property Tax	51
Accounts	26,095
Accrued Interest	18,644
Drainage Assessments	192,319
Due From Other Governments	159,358
Inventories	133,962
Capital Assets (Net of Accumulated Depreciation)	2,823,931
TOTAL ASSETS	10,645,182
LIABILITIES	
Accounts Payable	636,986
Accrued Interest Payable	20,264
Salaries & Benefits Payable	7,571
Due To Other Governments	72,561
Deferred Revenue	
Succeeding Year Property Tax	3,014,129
Other	189,722
Long Term Liabilities	
Portion Due Or Payable Within One Year	
General Obligation Notes	188,000
Loans	90,986
Compensated Absences	191,848
Improvement Certificate	19,291
Portion Due Or Payable After One Year	
General Obligation Notes	50,000
Loans	473,822
Revenue Bonds	1,385,700
Improvement Certificates	170,432
TOTAL LIABILITIES	6,511,312
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,096,122
Restricted For:	
Mental Health Purposes	115,234
Secondary Roads Purposes	375,340
Other Purposes	1,263,719
Unrestricted	283,455
TOTAL NET ASSETS	\$4,133,870

See Notes To Financial Statements

WORTH COUNTY
Northwood, Iowa

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			
		Charges for Service	Operating Grants, Contributions, & Restricted Interest	Capital Grants, Net (Expense) Contributions, & Restricted Interest	Revenue & Changes in Net Assets
GOVERNMENTAL ACTIVITIES:					
Public Safety & Legal Services	\$1,209,368	\$46,418	\$22,494	\$ 0	\$(1,140,456)
Physical Health & Social Services	881,131	322,511	317,620	0	(241,000)
Mental Health	824,134	54,233	320,236	0	(449,665)
County Environment & Education	1,622,049	17,518	8,706	0	(1,595,825)
Roads & Transportation	1,988,172	156,957	1,630,048	347,645	146,478
Governmental Services to Residents	231,234	157,750	0	0	(73,484)
Administrative Services	616,766	18,799	0	0	(597,967)
Non-Program	296,274	37,355	0	0	(258,919)
Interest on Long-Term Debt	59,819	0	0	0	(59,819)
TOTAL	\$7,728,947	\$811,541	\$2,299,104	\$347,645	(4,270,657)
GENERAL REVENUES:					
Property and Other County Tax Levied For:					
General Purposes					2,316,294
Debt Service					27,040
Penalties & Interest on Property Tax					23,044
State Tax Credits					163,123
Local Option Sales Tax					194,859
Franchise Tax					9,445
Unrestricted Investment Earnings					93,232
Miscellaneous					312,702
Gain on Disposal of Capital Assets					525
TOTAL GENERAL REVENUES					3,140,264
CHANGE IN NET ASSETS					(1,130,393)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED (Note 13)					5,264,263
NET ASSETS END OF YEAR					\$4,133,870

See Notes To Financial Statements

WORTH COUNTY**Northwood, Iowa****BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2004

		Special Revenue	
	General	Mental Health	Rural Services
ASSETS			
Cash and Pooled Investments			
County Treasurer	\$704,861	\$202,235	\$603,577
Receivables			
Property Tax			
Delinquent	14,044	2,093	1,827
Succeeding Year	2,009,192	350,463	559,291
Interest & Penalty on Property Tax	51	0	0
Accounts	16,346	0	0
Accrued Interest	5,266	0	253
Assessments	0	0	0
Due From Other Funds	4,655	0	0
Due From Other Governments	9,536	129	21,033
Inventories	0	0	0
TOTAL ASSETS	\$2,763,951	\$554,920	\$1,185,981
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$88,784	\$22,157	\$5,035
Salaries & Benefits Payable	7,571	0	0
Due to Other Funds	0	0	0
Due To Other Governments	5,346	67,066	0
Deferred Revenue			
Succeeding Year Property Tax	2,009,192	350,463	559,291
Other	13,988	2,083	1,827
Total Liabilities	2,124,881	441,769	566,153
Fund Balances			
Reserved For:			
Inventories	0	0	0
Unreserved	639,070	113,151	619,828
Total Fund Balances	639,070	113,151	619,828
TOTAL LIABILITIES AND FUND BALANCES	\$2,763,951	\$554,920	\$1,185,981

See Notes To Financial Statements

Exhibit C

Special Revenue			Debt Service	Capital Projects	Non-major Special Revenue	Total
Secondary Roads	Ethanol Bond	Highway 105 Trust				
\$739,693	\$190,933	\$1,339,504	\$37,129	\$ 658	\$428,511	\$4,247,101
0	0	0	3	0	0	17,967
0	0	0	95,183	0	0	3,014,129
0	0	0	0	0	0	51
8,745	0	0	0	0	1,004	26,095
0	837	12,237	0	0	51	18,644
0	0	0	0	0	192,319	192,319
0	0	0	0	0	0	4,655
128,660	0	0	0	0	0	159,358
133,962	0	0	0	0	0	133,962
<u>\$1,011,060</u>	<u>\$191,770</u>	<u>\$1,351,741</u>	<u>\$132,315</u>	<u>\$ 658</u>	<u>\$621,885</u>	<u>\$7,814,281</u>
\$518,822	\$ 0	\$ 0	\$ 0	\$2,188	\$ 0	\$636,986
0	0	0	0	0	0	7,571
0	0	0	0	0	0	0
149	0	0	0	0	0	72,561
0	0	0	95,183	0	0	3,014,129
0	0	0	0	0	189,722	207,620
<u>518,971</u>	<u>0</u>	<u>0</u>	<u>95,183</u>	<u>2,188</u>	<u>189,722</u>	<u>3,938,867</u>
133,962	0	0	0	0	0	133,962
358,127	191,770	1,351,741	37,132	(1,530)	432,163	3,741,452
<u>492,089</u>	<u>191,770</u>	<u>1,351,741</u>	<u>37,132</u>	<u>(1,530)</u>	<u>432,163</u>	<u>3,875,414</u>
<u>\$1,011,060</u>	<u>\$191,770</u>	<u>\$1,351,741</u>	<u>\$132,315</u>	<u>\$658</u>	<u>\$621,885</u>	<u>\$7,814,281</u>

**WORTH COUNTY
Northwood, Iowa**

**RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2004**

Total governmental fund balances (page 15-16)	\$3,875,414
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*Amounts reported for governmental activities in the Statement of Net Assets
are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$4,069,103 and the accumulated depreciation is \$1,245,172.	2,823,931
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Other long term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	17,868
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The Internal Service Fund is used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	6,970
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Long-term liabilities, including bonds payable, accrued interest payable and compensated absences payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,590,313)</u>
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Net assets of governmental activities (page 10)	<u><u>\$4,133,870</u></u>
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See Notes to Financial Statements.

WORTH COUNTY**Northwood, Iowa**

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004**

		Special Revenue	
	General	Mental Health	Rural Services
REVENUES			
Property & Other County Tax	\$1,723,669	\$256,822	\$526,405
Interest & Penalty on Property Tax	23,346	0	0
Intergovernmental	740,578	392,576	21,711
Licenses & Permits	2,869	0	0
Charges for Services	226,840	0	0
Use of Money & Property	55,713	0	2,796
Miscellaneous	33,716	34	0
Total Revenues	<u>2,806,731</u>	<u>649,432</u>	<u>550,912</u>
EXPENDITURES			
Operating:			
Public Safety & Legal Services	952,211	0	200,567
Physical Health & Social Services	879,418	0	0
Mental Health	0	824,134	0
County Environment & Education	303,026	0	151,493
Roads & Transportation	0	0	0
Governmental Services to Residents	228,829	0	345
Administrative Services	601,859	0	0
Non-program	0	0	0
Debt Service	0	0	0
Capital Projects	128,389	0	0
Total Expenditures	<u>3,093,732</u>	<u>824,134</u>	<u>352,405</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(287,001)</u>	<u>(174,702)</u>	<u>198,507</u>
Other Financing Sources (Uses)			
Sale of Capital Assets	5,625	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	(699,000)
General Obligation Bond Issued	75,000	0	0
Revenue Bonds Issued	0	0	0
Total Other Financing Sources (Uses)	<u>80,625</u>	<u>0</u>	<u>(699,000)</u>
Net Change in Fund Balances	(206,376)	(174,702)	(500,493)
Fund Balances – Beginning of Year, As Restated (Note 13)	845,446	287,853	1,120,321
Increase in Reserve For Inventories	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances – End of Year	<u>\$639,070</u>	<u>\$113,151</u>	<u>\$619,828</u>

See Notes To Financial Statements

Exhibit E

Secondary Roads	Special Revenue		Debt Service	Capital Projects	Non-major Special Revenue	Total
	Ethanol Bond	Highway 105 Trust				
\$ 0	\$ 0	\$ 0	\$27,040	\$ 0	\$ 0	\$2,533,936
0	0	0	0	0	0	23,346
2,032,383	0	0	1,904	0	30,621	3,219,773
1,040	0	0	0	0	0	3,909
0	0	0	0	0	34,958	261,798
0	1,831	38,938	0	0	394	99,672
139,591	0	0	10,000	0	230,686	414,027
2,173,014	1,831	38,938	38,944	0	296,659	6,556,461
0	0	0	0	0	6,461	1,159,239
0	0	0	0	0	0	879,418
0	0	0	0	0	0	824,134
0	1,140,532	0	0	0	0	1,595,051
2,042,794	0	0	0	0	0	2,042,794
0	0	0	0	0	0	229,174
580	0	0	0	0	0	602,439
0	0	0	0	0	195,186	195,186
0	55,229	0	1,812	0	0	57,041
891,664	0	0	0	164,530	0	1,184,583
2,935,038	1,195,761	0	1,812	164,530	201,647	8,769,059
(762,024)	(1,193,930)	38,938	37,132	(164,530)	95,012	(2,212,598)
750	0	0	0	0	0	6,375
699,000	0	0	0	0	0	699,000
0	0	0	0	0	0	(699,000)
0	0	0	0	163,000	0	238,000
0	1,385,700	0	0	0	0	1,385,700
699,750	1,385,700	0	0	163,000	0	1,630,075
(62,274)	191,770	38,938	37,132	(1,530)	95,012	(582,523)
529,036	0	1,312,803	0	0	337,151	4,432,610
25,327	0	0	0	0	0	25,327
\$492,089	\$191,770	\$1,351,741	\$37,132	\$(1,530)	\$432,163	\$3,875,414

WORTH COUNTY
Northwood, Iowa

**RECONCILIATION OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
Year Ended June 30, 2004

Net change in fund balances - Total governmental funds (page 15-16) \$(582,523)

*Amounts reported for governmental activities in the Statement of
Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$826,666	
Capital assets contributed by the Iowa Department of Transportation	347,645	
Depreciation Expense	(159,105)	1,015,206

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report, the proceeds from the sale as an increase in financial resources. (5,850)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

Property tax	4,257
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Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets. Current year repayments exceeded issued as follows:

Issued	(1,623,700)	
Repaid	181,561	(1,442,139)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds as follows:

Compensated absences	(37,754)	
Interest on long-term debt	(2,778)	(40,532)

Inventories in the governmental funds have been recorded as expenditures when paid. However, the statement of activities will report these items as expenditures in the period that the corresponding net asset is exhausted. (25,327)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (53,485)

Change in Net Assets of Governmental Activities (page 11) \$(1,130,393)

See Notes to Financial Statements

**WORTH COUNTY
Northwood, Iowa****STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004**

Internal Service
Employee Group
Health

ASSETS

Cash & Pooled Investments	\$6,970
Receivables	0
TOTAL ASSETS	\$6,970

NET ASSETS

NET ASSETS	\$6,970
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See Notes To Financial Statements

**WORTH COUNTY
Northwood, Iowa****STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2004**

	<u>Internal Service Employee Group Health</u>
Operating Revenues:	
Reimbursements from Operating Funds	\$320,343
Reimbursements from Employees	62,755
Insurance Reimbursements	20,411
Total Operating Revenue	<u>403,509</u>
Operating Expenses	
Medical Claims	946
Insurance Premiums	451,150
Administrative Fees	3,584
Miscellaneous	1,570
Total Operating Expenses	<u>457,250</u>
Operating Loss	(53,741)
Non-Operating Revenues:	
Interest on Investments	<u>256</u>
Net Loss	(53,485)
Net Assets Beginning of Year	<u>60,455</u>
Net Assets End of Year	<u>\$6,970</u>

See Notes To Financial Statements

**WORTH COUNTY
Northwood, Iowa****STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004**

	<u>Internal Service Employee Group Health</u>
Cash Flows From Operating Activities	
Cash Received From Operating Fund Reimbursements	\$320,343
Cash Received From Employees and Others	83,166
Cash Payments to Supplies for Services	(458,470)
Net Cash Used in Operating Activities	(54,961)
Cash Flows From Investing Activities	
Interest on Investments	256
Net Decrease in Cash and Cash Equivalent	(54,705)
Cash and Cash Equivalents at Beginning of Year	61,675
Cash and Cash Equivalents at End of Year	\$6,970
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	\$(53,741)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities	
Decrease in Accounts Payable	(1,220)
Net Cash Used in Operating Activities	\$(54,961)

See Notes To Financial Statements

**WORTH COUNTY
Northwood, Iowa****STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004****ASSETS**

Cash and Pooled Investments	
County Treasurer	\$587,571
Other County Officials	42,479
Receivables	
Property Tax	
Delinquent	64,071
Succeeding Year	6,081,656
Accounts	5
Accrued Interest	118
Due from Other Governments	2,686
Total Assets	6,778,586

LIABILITIES

Accounts Payable	8,575
Due to Other Governments	6,717,647
Trusts Payable	52,364
Total Liabilities	6,778,586
Net Assets	\$ 0

See Notes To Financial Statements

WORTH COUNTY
Northwood, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Worth County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are presented in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Worth County has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County.

These financial statements present Worth County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities which are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Seventy-nine drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Worth County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Worth County Auditor's office.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods and services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Worth County Assessor's Conference Board, Worth County Emergency Management Commission, and Worth County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in an Agency Fund of the County.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the county and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other non-exchange transactions.

The Statement of Net Assets presents the County's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

Special Revenue Funds

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the secondary road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the County's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims, judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply the cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary fund of the County applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Funds is charges to customers for sales and services. Operating expenses for internal services funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on a cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposits which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Property Tax Receivable (Continued) – Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Drainage Assessment Receivable – Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is September 30 and is subject to the same interest and penalties as other taxes. Delinquent assessments receivable represent assessments which are due and payable but have not been collected. Succeeding year drainage assessments receivable represents remaining assessments which are payable but not yet due.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2004, balances of inter-fund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in-first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve, which indicates that they are not available to liquidate current obligations.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Infrastructure	\$50,000
Land, Buildings and Improvements	25,000
Equipment and Vehicles	5,000

Capital assets of the County are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50
Infrastructure	30-50
Equipment and Vehicles	2-20

Due to Other Governments - Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable - Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable, as well as delinquent property tax receivable and other receivable not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health and Secondary Roads Funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed amounts budgeted in any function.

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$306,666 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Note 3: Due from and Due to Other Funds

The detail of inter-fund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Agency	
	Auto License and Use Tax	\$4,655

These balances result from the time lag between the dates that inter-fund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Notes to Financial Statements (Continued)

Note 4: Inter-fund Transfers

The detail of inter-fund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
Special Revenue:		
Secondary Roads	Special Revenue:	
	Rural Services	\$699,000
Agency	Agency	
County Assessor	Special Appraisal	50,000
Total		<u>\$749,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Construction In Progress	\$33,340	\$716,654	\$33,340	\$716,654
Total Capital Assets Not being Depreciated	<u>33,340</u>	<u>716,654</u>	<u>33,340</u>	<u>716,654</u>
Capital Assets Being Depreciated:				
Buildings	751,399	0	0	751,399
Machinery and Equipment	2,197,157	24,995	36,750	2,185,402
Infrastructure	0	415,648	0	415,648
Total Capital Assets Being Depreciated	<u>2,948,556</u>	<u>440,643</u>	<u>36,750</u>	<u>3,352,449</u>
Less Accumulated Depreciation For:				
Buildings	129,240	19,918	0	149,158
Machinery and Equipment	987,727	130,874	30,900	1,087,701
Infrastructure	0	8,313	0	8,313
Total Accumulated Depreciation	<u>1,116,967</u>	<u>159,105</u>	<u>30,900</u>	<u>1,245,172</u>
Total Capital Assets Being Depreciated, Net	<u>1,831,589</u>	<u>281,538</u>	<u>5,850</u>	<u>2,107,277</u>
Governmental Activities Capital Assets, Net	<u>\$1,864,929</u>	<u>\$998,192</u>	<u>\$39,190</u>	<u>\$2,823,931</u>

Depreciation was charged to functions of the primary government as follows:

Governmental Activities:	
Public Safety and Legal Services	\$31,396
Physical Health and Social Services	2,462
County Environment and Education	18,600
Roads and Transportation	103,472
Governmental Services to Residents	1,225
Administration	<u>1,950</u>

Total Depreciation Expense – Governmental Activities

\$159,105

Notes to Financial Statements (Continued)

Note 6: Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	<u>\$5,346</u>
Special Revenue		
Mental Health	Services	67,066
Secondary Roads		<u>149</u>
		<u>67,215</u>
Total For Governmental Funds		<u>\$72,561</u>
Agency:		
Agricultural Extension	Collections	\$93,442
Assessor		184,932
Schools		4,542,343
Area Schools		193,324
Corporations		1,212,809
Auto Licenses & Use Tax		85,058
All Other		<u>405,739</u>
Total For Agency Funds		<u>\$6,717,647</u>

Note 7: Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	Capital Lease Payable	Notes Payable	Compensated Absences	Drainage Improvement Certificates	Revenue Bond	Total
Balance Beginning of Year	\$41,183	\$673,579	\$154,095	\$221,332	\$ 0	\$1,090,189
Additions	0	238,000	37,754	0	1,385,700	1,661,454
Reductions	41,183	108,769	0	31,609	0	181,561
Balance End of Year	<u>\$ 0</u>	<u>\$802,810</u>	<u>\$191,849</u>	<u>\$189,723</u>	<u>\$1,385,700</u>	<u>\$2,570,082</u>
Due Within One Year	<u>\$ 0</u>	<u>\$278,986</u>	<u>\$191,849</u>	<u>\$19,290</u>	<u>\$ 0</u>	<u>\$490,125</u>

Capital Lease Purchase Agreement

The County has entered into a capital lease purchase agreement to lease three plow trucks. Payment under capital lease agreement for the year ended June 30, 2004 totaled \$43,440, which paid the lease in full.

Notes to Financial Statements (Continued)

Note 7: Changes in Long-Term Debt (Continued)

Notes Payable

In November 2002, Worth County entered into a purchase agreement with Spreitzer, Inc. for four road graders. The loan for the full purchase amount of \$697,688 was secured through Northwoods State Bank. Principal payments under this loan agreement totaled \$100,377 during the year ended June 30, 2004.

A summary of the County's indebtedness is as follows:

Year Ending June 30	Interest Rate	Principal	Interest	Total
2005	4.23%	\$78,288	\$22,089	\$100,377
2006	4.23	81,600	18,777	100,377
2007	4.23	85,052	15,325	100,377
2008	4.23	88,649	11,728	100,377
2009	4.23	92,399	7,978	100,377
2010	4.23	96,211	4,070	100,281
		<u>\$522,199</u>	<u>\$79,967</u>	<u>\$602,166</u>

In January 2003, Worth County purchased farmland for \$82,714 and financed the purchase with a loan through Northwoods State Bank. Irregular payments were made on the note during the year ended June 30, 2004, principal totaled \$33,658, interest totaled \$3,004.

Year Ending June 30	Interest Rate	Principal	Interest	Total
2005	5.48%	\$12,698	\$1,330	\$14,028
2006	5.48	12,389	1,639	14,028
2007	5.48	13,068	960	14,028
2008	5.48	4,454	244	4,698
		<u>\$42,609</u>	<u>\$4,173</u>	<u>\$46,782</u>

During the year ended June 30, 2004, the County issued \$75,000 of General Obligation Urban Renewal Notes for the purpose of a grant to the Top of Iowa Welcome Center to construct a new well.

A summary of the County's June 30, 2004 indebtedness is as follows:

Year Ending June 30	Interest Rate	Principal	Interest	Total
2005	3.75%	\$25,000	\$2,378	\$27,378
2006	3.75	25,000	1,427	26,427
2007	3.75	25,000	477	25,477
		<u>\$75,000</u>	<u>\$4,282</u>	<u>\$79,282</u>

During the year ended June 30, 2004, the County issued, not to exceed \$400,000, General Obligation Courthouse Improvement Loan Anticipation Notes for the purpose of constructing an elevator in the courthouse. The County received advances totaling \$163,000. Interest on the notes were 2.75%. The notes mature on November 1, 2004.

Notes to Financial Statements (Continued)

Note 7: Changes in Long-Term Debt (Continued)

On September 22, 2003, the County issued \$1,385,700 of Urban Renewal Tax Increment Revenue Bond Series 2003. The bond was issued for the purpose of defraying a portion of the costs of an urban renewal project in the Iowa Ethanol Urban Renewal Area. The bond is not a general obligation of the County, and is payable solely from the revenue of the Urban Renewal Tax Revenue Fund. Interest on the bond is 5.75%, payable June 1 and December 1, commencing December 1, 2003 through June 1, 2006. Principal payments begin December 1, 2006 through December 1, 2013.

A summary of payments is as follows:

Year Ending June 30	Interest Rate	Principal	Interest	Total
2005	5.75%	\$ 0	\$79,678	\$79,678
2006	5.75	0	79,678	79,678
2007	5.75	154,097	77,503	231,600
2008	5.75	162,904	68,696	231,600
2009	5.75	172,587	59,013	231,600
2010	5.75	182,653	48,947	231,600
2011	5.75	193,306	38,294	231,600
2012	5.75	204,515	27,085	231,600
2013	5.75	216,510	15,090	231,600
2014	5.75	99,128	2,858	101,986
		<u>\$1,385,700</u>	<u>\$496,842</u>	<u>\$1,882,542</u>

Drainage Warrants/Drainage Improvement Certificates Payable

Drainage warrants are warrants, which are legally drawn on drainage district funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented.

Drainage improvement certificates payable represent amounts due to purchasers of drainage improvement certificates. Drainage improvement certificates are waivers that provide for a landowner to pay an improvement assessment in installment payments over a designated number of years with interest at a designated interest rate. The improvement certificates representing those assessments or installments due from the landowners are sold for cash as interest bearing certificates. Funds received from the sale of certificates are used to pay outstanding registered warrants issued to contractors who perform work on drainage district improvements and registered warrants issued for other related costs. Drainage improvement certificates are redeemed and interest paid to the bearer of the certificate upon receipt of the installment payment plus interest from the landowner.

Drainage warrants and drainage improvement certificates are paid from the Special Revenue Fund solely from drainage assessments against benefited properties.

Note 8: Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Notes to Financial Statements (Continued)

Note 8: Pension and Retirement Benefits (Continued)

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively. For the year ended June 30, 2002, the contribution rates for law enforcement employees and the county were 5.50% and 8.25%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$153,185, \$150,807 and \$147,294, respectively, equal to the required contributions for each year.

Note 9: Risk Management

The County carries commercial insurance which provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reduction in insurance coverage from prior years.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond. The County assumes liability for any deductibles and claims in excess of coverage limitations. The County assumes responsibility for workers compensation and employee blanket bond claims in excess of \$500,000 and \$100,000 per employee, with an additional \$50,000 coverage on the Treasurer. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10: Employee Health Insurance Plan

The Worth County Health Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administered through a service agreement with Wellmark, Blue Cross, Blue Shield.

Monthly payments of service fees and plan contributions to the Worth County Health Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Blue Cross and Blue Shield of Iowa from the Worth County Health Fund. The County records the plan assets and related liabilities of the Worth County Health Fund as an Internal Service Fund. The County's contribution to the fund for the year ended June 30, 2004 was \$320,343.

Note 11: Business Transactions

Business transactions between the County and County officials or employees were noted. The transactions may be conflicts of interest as they were more than \$1,500.

Note 12: Deficit Balance

The Capital Project fund had a deficit fund balance of \$1,530 at June 30, 2004.

Notes to Financial Statements (Continued)

Note 13: Accounting Change

Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, *Basis Financial Statements – and Management’s Discussion and Analysis – for the State and Local Government*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Omnibus*; Statement No. 38, *Certain Financial Statements Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences* were implemented during the fiscal year ended June 30, 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major special revenue funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting changes and other restatements in the governmental activities are summarized as follows:

Net Assets, June 30, 2003, as Previously Reported	\$4,405,234
GASB Interpretation 6 Adjustments	<u>27,376</u>
Net Assets, July 1, 2003, as Restated for Governmental Funds	4,432,610
GASB 34 Adjustments:	
Capital Assets, Net of Accumulated Depreciation of \$1,116,988	1,864,929
Long-Term Liabilities	(1,093,731)
Internal Service Fund	<u>60,455</u>
Net Assets, July 1, 2003, as Restated:	<u>\$5,264,263</u>

WORTH COUNTY
Northwood, Iowa

**BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)
ALL GOVERNMENTAL FUNDS**

Required Supplementary Information
Year Ended June 30, 2004

	Actual	Less Funds Not Required to be Budgeted
RECEIPTS		
Property and Other County Tax	\$2,527,633	\$ 0
Interest and Penalty on Property Tax	23,597	0
Intergovernmental	3,231,242	0
Licenses and Permits	4,513	0
Charges for Services	257,283	0
Use of Money and Property	107,110	0
Miscellaneous	418,526	241,916
Total Receipts	<u>6,569,904</u>	<u>241,916</u>
DISBURSEMENTS		
Public Safety and Legal Services	1,159,107	0
Physical Health and Social Services	903,678	0
Mental Health	756,193	0
County Environment and Education	1,598,322	0
Roads and Transportation	2,142,488	0
Governmental Services to Residents	232,996	0
Administrative Services	514,855	0
Non-Program	195,186	195,186
Debt Services	57,041	0
Capital Projects	706,402	0
Total Disbursements	<u>8,266,268</u>	<u>195,186</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(1,696,364)	46,730
Other Financing Sources, Net	<u>1,630,075</u>	<u>0</u>
Excess (Deficiency) of Receipts and Other Financing Sources Under Disbursements and Other Financing Uses	(66,289)	46,730
Fund Balances – Beginning of Year	<u>4,422,025</u>	<u>277,293</u>
Fund Balances – End of Year	<u>\$4,355,736</u>	<u>\$324,023</u>

See Accompanying Independent Auditors' Report

Net	Budgeted Amounts		Final to Actual Variance Positive (Negative)
	Original	Final	
\$2,527,633	\$2,520,892	\$2,520,892	\$6,741
23,597	24,618	24,618	(1,021)
3,231,242	2,995,494	3,027,775	203,467
4,513	17,053	17,053	(12,540)
257,283	195,384	195,384	61,899
107,110	285,212	285,212	(178,102)
176,610	595,217	595,217	(418,607)
6,327,988	6,633,870	6,666,151	(338,163)
1,159,107	1,202,224	1,237,255	78,148
903,678	1,243,707	1,243,707	340,029
756,193	884,880	884,880	128,687
1,598,322	479,230	1,651,930	53,608
2,142,488	2,160,616	2,160,616	18,128
232,996	245,108	251,108	18,112
514,855	666,555	670,055	155,200
0	0	180	180
57,041	29,211	87,278	30,237
706,402	363,131	913,131	206,729
8,071,082	7,274,662	9,100,140	1,029,058
(1,743,094)	(640,792)	(2,433,989)	690,895
1,630,075	75,361	1,761,061	(130,986)
(113,019)	(565,431)	(672,928)	559,909
4,144,732	3,381,780	3,381,780	762,952
\$4,031,713	\$2,816,349	\$2,708,852	\$1,322,861

WORTH COUNTY
Northwood, Iowa

BUDGETARY COMPARISON SCHEDULE –
BUDGET TO GAAP RECONCILIATION

Required Supplementary Information
Year Ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$6,327,988	\$(2,213)	\$6,325,775
Expenditures	8,071,082	502,791	8,573,873
Net	(1,743,094)	(505,004)	(2,248,098)
Other Financing Sources (Net)	1,630,075	0	1,630,075
Beginning Fund Balances	4,144,732	(3,242)	4,141,490
Increase (Decreases) in Reserve for: Inventories	0	25,327	25,327
Ending Fund Balances	<u>\$4,031,713</u>	<u>\$(482,919)</u>	<u>\$3,548,794</u>

See Accompanying Independent Auditors' Report

WORTH COUNTY
Northwood, Iowa

**NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION – BUDGETARY REPORTING**

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriation lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund and Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, three budget amendments increased budgeted disbursements by \$1,825,478. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted in any function.

WORTH COUNTY
Northwood, Iowa

COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	REAP	Recorder Records Management	Emergency Medical Services
ASSETS			
Cash and Pooled Investments			
County Treasurer	\$22,892	\$9,407	\$(4,274)
Receivables			
Interest and Penalty on Property Taxes			
Accounts	0	494	0
Accrued Interest	26	11	0
Assessments	0	0	0
TOTAL ASSETS AND OTHER DEBITS	\$22,918	\$9,912	\$(4,274)
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Other	\$ 0	\$ 0	\$ 0
Total Liabilities	0	0	0
Fund Equity and Other Credits			
Reserved for Inventories	22,918	9,912	\$(4,274)
Total Fund Equity and Other Credits	22,918	9,912	(4,274)
TOTAL LIABILITIES AND FUND EQUITY	\$22,918	\$9,912	\$(4,274)

See Accompanying Independent Auditors' Report

Schedule 1

Recorders Electronic Transaction	Board and Room	Probation Fees	Drainage	Conservation Reserve	Total
\$22,730	\$27,403	\$12,900	\$324,023	\$13,430	\$428,511
0	185	325	0	0	1,004
14	0	0	0	0	51
0	0	0	192,319	0	192,319
\$22,744	\$27,588	\$13,225	\$516,342	\$13,430	\$621,885
\$ 0	\$ 0	\$ 0	\$189,722	\$ 0	\$189,722
0	0	0	189,722	0	189,722
22,744	27,588	13,225	326,620	13,430	432,163
22,744	27,588	13,225	326,620	13,430	432,163
\$22,744	\$27,588	\$13,225	\$516,342	\$13,430	\$621,885

WORTH COUNTY
Northwood, Iowa

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES –
NON MAJOR SPECIAL REVENUE FUNDS**

Year Ended June 30, 2004

	REAP	Recorder Records Management	Emergency Medical Services
REVENUES			
Interest and Penalty on Property Tax	\$ 0	\$ 0	\$21,915
Intergovernmental	8,706	0	0
Charges for Services	0	2,855	0
Use of Money and Property	221	118	0
Total Revenues	8,927	2,973	21,915
EXPENDITURES			
Operating			
Public Safety and Legal Services	0	0	6,461
Non-Program	0	0	0
Total Expenditures	0	0	6,461
Excess of Receipts Over Expenditures	8,927	2,973	15,454
Fund Balances – Beginning of Year	13,991	6,939	(19,728)
Fund Balances – End of Year	\$22,918	\$9,912	\$(4,274)

See Accompanying Independent Auditors' Report

Schedule 2

Recorders Electronic Transaction	Board and Room	Probation Fees	Drainage	Conservation Reserve	Total
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$30,621
0	0	0	0	0	34,958
22,689	4,789	4,625	0	0	394
55	0	0	230,686	0	230,686
22,744	4,789	4,625	230,686	0	296,659
0	0	0	0	0	6,461
0	0	0	195,186	0	195,186
0	0	0	195,186	0	201,647
22,744	4,789	4,625	35,500	0	95,012
0	22,799	8,600	291,120	13,430	337,151
\$22,744	\$27,588	\$13,225	\$326,620	\$13,430	\$432,163

WORTH COUNTY
Northwood, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash & Pooled Investments				
County Treasurer	\$ 0	\$2,589	\$99,392	\$120,937
Other County Officials	42,479	0	0	0
Receivables				
Property Tax				
Delinquent	0	799	816	38,291
Succeeding Year	0	90,021	92,438	4,381,485
Accounts	5	0	0	0
Accrued Interest	0	0	0	0
Due From Other Governments	0	33	35	1,630
TOTAL ASSETS	\$42,484	\$93,442	\$192,681	\$4,542,343

LIABILITIES				
Liabilities				
Accounts Payable	\$ 0	\$ 0	\$7,749	\$ 0
Due to Other Governments	2,897	93,442	184,932	4,542,343
Trusts Payable	39,587	0	0	0
TOTAL LIABILITIES	\$42,484	\$93,442	\$192,681	\$4,542,343

See Accompanying Independent Auditors' Report

Schedule 3

Area Schools	Corporation	Townships	City Special Assessments	Auto Licenses & Use Tax	Other	Total
\$5,291	\$23,716	\$2,266	\$124	\$85,058	\$248,198	\$587,571
0	0	0	0	0	0	42,479
1,634	21,677	466	0	0	388	64,071
186,331	1,166,538	107,948	0	0	56,895	6,081,656
0	0	0	0	0	0	5
0	0	0	0	0	118	118
68	878	22	0	0	20	2,686
\$193,324	\$1,212,809	\$110,702	\$124	\$85,058	\$305,619	\$6,778,586
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$826	\$8,575
193,324	1,212,809	110,702	124	85,058	292,016	6,717,647
0	0	0	0	0	12,777	52,364
\$193,324	\$1,212,809	\$110,702	\$124	\$85,058	\$305,619	\$6,778,586

WORTH COUNTY
Northwood, Iowa

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS
Year Ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS AND LIABILITIES				
Balances – Beginning of Year	\$33,791	\$99,558	\$189,238	\$4,647,537
Additions				
Property & Other County Tax	0	91,253	93,698	4,438,290
E911 Surcharge	0	0	0	0
State Tax Credits	0	6,902	7,046	322,662
Office Fees & Collections	225,759	0	0	0
Auto Licenses, Use Tax & Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	76,224	0	0	0
Miscellaneous	0	0	0	0
Total Additions	301,983	98,155	100,744	4,760,952
Deductions				
Agency Remittances				
To County Funds	109,343	0	0	0
To Other Governments	75,181	104,271	147,301	4,866,146
Trusts Paid Out	108,766	0	0	0
Total Deductions	293,290	104,271	147,301	4,866,146
Other Financing Sources (Uses)				
Operating Transfers In (Out)	0	0	50,000	0
Balances – End of Year	\$42,484	\$93,442	\$192,681	\$4,542,343

See Accompanying Independent Auditors' Report

Schedule 4

Area Schools	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$203,394	\$1,166,270	\$98,980	\$1,467	\$97,113	\$274,345	\$6,811,693
188,782	1,158,306	110,659	0	0	57,492	6,138,480
0	0	0	0	0	41,071	41,071
14,105	102,084	5,067	0	0	3,352	461,218
0	0	0	0	0	0	225,759
0	0	0	0	1,056,816	0	1,056,816
0	0	0	13,085	0	0	13,085
0	0	0	0	0	18,253	94,477
0	0	0	0	0	193,546	193,546
202,887	1,260,390	115,726	13,085	1,056,816	313,714	8,224,452
0	0	0	0	56,009	0	165,352
212,857	1,213,851	104,004	14,428	1,012,862	129,896	7,880,897
0	0	0	0	0	102,544	211,310
212,957	1,213,851	104,004	14,428	1,068,871	232,440	8,257,559
0	0	0	0	0	(50,000)	0
\$193,324	\$1,212,809	\$110,702	\$124	\$85,058	\$305,619	\$6,778,586

WORTH COUNTY
Northwood, Iowa

**SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS**

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Property & Other County Tax	\$2,533,936	\$2,385,163
Interest & Penalty On Property Tax	23,346	26,524
Intergovernmental	3,219,773	2,869,101
Licenses & Permits	3,909	4,580
Charges For Service	261,798	236,295
Use of Money & Property	99,672	135,986
Miscellaneous	414,027	467,116
Total	<u>\$6,556,461</u>	<u>\$6,124,765</u>
Expenditures:		
Current:		
Public Safety & Legal Services	\$1,159,239	\$1,038,546
Physical Health & Social Services	879,418	921,995
Mental Health	824,134	818,414
County Environment & Education Services	1,595,051	433,269
Roads & Transportation	2,042,794	2,038,864
Governmental Services To Residents	229,174	210,873
Administration Services	602,439	594,167
Non-Program	195,186	599,834
Debt Services	57,041	0
Capital Projects	1,184,583	124,512
Total	<u>\$8,769,059</u>	<u>\$6,780,474</u>

See Accompanying Independent Auditors' Report

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting

To the Officials of Worth County
Northwood, Iowa

We have audited the general purpose financial statements of Worth County, Northwood, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated April 21, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Worth County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items (2), (5) and (12).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Worth County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Worth County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item A is a material weakness. Prior year reportable conditions have been resolved except for items (A) and (B).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Worth County and other parties to whom Worth County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Worth County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

April 21, 2005

WORTH COUNTY

Schedule of Findings Year Ended June 30, 2004

Findings Related to the General Purpose Financial Statements.

REPORTABLE CONDITIONS

- A **SEGREGATION OF DUTIES** - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements. We noted not all the collection, deposit preparation and reconciliation functions are segregated from recording and accounting of cash receipts in the Treasurer's and Recorder's office.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, County Officials should review the operating procedures of each office to obtain the maximum internal control possible under the circumstances.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by each office will be separated and spread among the County Treasurer, Deputy and Clerk, and the County Recorder, Deputy and Clerk.

Conclusion – Response accepted.

- B **INFORMATION SYSTEMS**– During our review of internal control, the existing control activities in the County's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the County's computer based systems were noted:

The County does not have written policies for:

- Password privacy and confidentiality.

Also, the County does not have a written disaster recovery plan.

Recommendation – The County should develop written policies addressing the above items in order to improve the County's control over computer based systems.

Response – The County will comply in the future with these recommendations. County officials have discussed and agree that these policies are needed.

Conclusion – Response accepted.

WORTH COUNTY

Schedule of Findings Year Ended June 30, 2004

Other Findings Related to Required Statutory Reporting

1. **Official Depositories** – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year.
2. **Certified Budget** – Disbursements during the year ended June 30, 2004 did not exceed the amount budgeted in any function. Disbursements in certain departments exceeded the amounts appropriated and appropriations were not made by resolution. Emergency Management and Assessor disbursements exceed the amounts budgeted.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolutions, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We will amend the budgets when required. The appropriations will be watched more closely by the departments.

Conclusion – Response accepted.

3. **Questionable Expenditures** – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979. It was noted, however, that VISA statements are remitted for payment without supporting documentation such as receipts or invoices.

Recommendation – Per the Code of Iowa, Chapter 331.504(8), claims should not be paid without the proper documentation.

Response – We will require the proper documentation in the future.

Conclusion – Response accepted.

4. **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

WORTH COUNTY

Schedule of Findings Year Ended June 30, 2004

5. **Business Transactions** – The following business transactions between the County and County officials or employees were noted:

Name, Title and Business Connection	Transaction	Amount
Ken Abrams, Supervisor Owner of Abrams Drainage Service	Drainage work	\$7,612

The transactions with Abrams Drainage Service may represent conflicts of interest since the total transactions were in excess of \$1,500 during the fiscal year.

Recommendation – The County should refrain from business transactions with County employees or relatives of County employees whenever possible.

Response – The Company is the only area company that is immediately available to do this type of work for the County.

Conclusion – Response accepted.

6. **Bond Coverage** – Surety bond coverage of County officials and employees is in accordance with statutory provisions.
7. **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
8. **Resource Enhancement and Protection Certification** – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19 (1)(b) of the Code of Iowa in order to receive additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
9. **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy were noted.
10. **County Extension Office** – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B. Disbursement for the County Extension Office during the year ended June 30, 2004, did not exceed the amount budgeted.
11. **Economic Development** – During the year ended June 30, 2004, the County expended \$50,000 for economic development purposes, which appear to be appropriate expenditures of public funds since the public benefits to be derived have been clearly documented.

WORTH COUNTY

Schedule of Findings Year Ended June 30, 2004

12. **Deficit Fund Balance** – The Emergency Medical Services Fund has a deficit fund balance at June 30, 2004. The Capital Projects Fund had a deficit fund balance at June 30, 2004.

Recommendation – The County should take measures to correct these deficit fund balance.

Response – The County is participating in an Emergency Medical Services grant, which is on a reimbursement basis. The County has spent the funds as required by the grant and has applied for the reimbursement, but the reimbursement had not been received, causing the deficit fund balance. This deficit will be eliminated with the receipt of those funds. The Capital Projects Fund recovered from the deficit as work progressed on the elevator and funds were advanced on the Improvement Note.

Conclusion – Response accepted.

News Release

Gardiner Thomsen, P.C. today released an audit report on Worth County, Iowa.

Gardiner Thomsen, P.C. reported that the County had local tax revenue of \$9,098,898 for the year ended June 30, 2004, which included \$624,341 in tax credits from the State. The County then forwarded \$6,664,048 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$2,434,850 of the local tax revenue to finance County operations, an 11% decrease from the prior year. Other revenues included charges for service of \$811,541, operating grants, contributions and restricted interest of \$2,299,104, unrestricted investment earnings of \$93,232 and other general revenues of \$3,047,032.

Expenditures for the County operations totaled \$8,769,059, a 29% increase from the prior year. Expenditures included \$2,042,794 for Roads and Transportation, \$1,595,051 for County Environment and Education, and \$1,184,583 for Capital Projects.

The significant decrease/increase in revenues and expenses is due primarily to reduction in interest and miscellaneous revenues and increased expenditures for County projects such as the Iowa Ethanol TIF and the courthouse elevator. A copy of the audit report is available for review in the office of the Auditor of State and the Worth County Auditor's office.

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